

Service Date: July 5, 1983

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER Of The Application)
Of The CITY OF CONRAD To Increase) UTILITY DIVISION
Rates And Charges For Water Ser-) DOCKET NO. 83.2.10
vice.) ORDER NO. 4994

APPEARANCES

FOR THE APPLICANT:

Gale Gustafson, City Attorney, 15 - 4th Avenue S.W., Conrad,
Montana 59425.

FOR THE INTERVENORS:

John Allen, Staff Attorney, Montana Consumer Counsel, 34 West
6th Avenue, Helena, Montana 59620.

FOR THE COMMISSION:

Robert Nelson, Staff Attorney, 1227 - 11th Avenue, Helena,
Montana 59620.

BEFORE:

Danny Oberg, Commissioner, Presiding
John B. Driscoll, Commissioner
Thomas J. Schneider, Chairman

BACKGROUND

1. On February 22, 1983, the City of Conrad (Applicant or
City) filed an application with this Commission for authority
to increase rates and charges or water service to its
customers in the Conrad, Montana area. The Applicant
requested an average increase of approximately 50 percent

which would result in an annual revenue increase of approximately \$125,000.

2. On April 13, 1983 pursuant to notice of public hearing, a hearing was held in the City Council Chambers, Library Building, 15 - 4th Avenue S.W., Conrad, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed water rate adjustment.

3. On March 23, 1983, subsequent to the issuance of the Notice Of Public Hearing in this docket, the Applicant filed a request to include rates that had been omitted from the original Exhibit "A" to Resolution No. 556. The Applicant requested that the revised Exhibit "A" submitted March 23, 1983, which included a rate for "Metered Residential (within City)", be substituted for the original Exhibit "A". The Commission determined that the "Residential Flat Rate" published in the notice was significantly higher than the proposed metered rate and, therefore, accepted the revised Exhibit "A" without the requirement that the hearing be renoticed.

ANALYSIS AND FINDINGS OF FACT

General:

4. At the public hearing the Applicant presented the testimony and exhibits of:

Donald F. McClain, Mayor
Thomas L. Ellis, Public Witness
Ronald Bokma, Public Witness
Glenn Bouma, Public Witness
Ralph Dunahoo, Water Supervisor
Tom Thomas, Consulting Engineer
Edward Jury, City Clerk

These witnesses testified relative to: the need for replacement of the 12 inch steel transmission line running from the water treatment plant to the City, the estimated cost of the line replacement, the financing of the proposed line replacement, the financial condition of the water utility and rate structure.

5. No public testimony was presented at the public hearing in opposition to any issues under consideration by the Commission in this Docket.

Transmission Line Replacement

6. The City in its application has proposed replacement of a portion of the transmission line conveying water to the City of Conrad. The City proposes that the construction program be funded from a Revenue Bond Issue having a term of 20 years and a maximum interest rate of 11 percent, with the requirements that the City have a reserve fund in an amount equal to the average principal and interest payment on the bonds and provide a debt service coverage of 125 percent.

7. The City has two 12 inch transmission lines that are used to convey water from the existing water treatment plant to the City of Conrad. One is constructed of asbestos cement pipe and the other is constructed of steel. The City proposes to replace approximately 10,750 lineal feet of the 12 inch steel line with 16 inch asbestos cement pipe at a cost of approximately \$600,00. The City's rationale for replacing tile line and increasing the size is that "The steel pipeline has deteriorated due to age (30 to 50 years) and corrosion activity," and "....should a major fire occur

during heavy usage, the pipeline (the two 12 inch lines) would be too small to provide for domestic demands and fire flow" (Exhibit 4, page 5).

8. The three public witnesses testifying on behalf of the City had each granted the City an easement through their property for the placement of the presently existing 12 inch steel transmission line. Each of these witnesses indicated that in the last several years they had sustained property damage due to breaks in this line and that they had not pursued requests for compensation of losses with the City. But if line breaks continue to occur these witnesses indicated they may press for compensation. Examples of property damage incurred by the witnesses are: crop losses, soil loss, increased saline seep and damage to corrals.

The public witnesses testified that on each of their properties, breaks in the 12 inch transmission line requiring heavy equipment and extensive manpower were occurring at the rate of two or three per year and it was their opinion that the reliability of the 12 inch line was poor and needed to be replaced.

The Commission, having considered the testimony of the City that the 12 inch steel line is deteriorated and the corroborating testimony of the public witnesses, finds that it would be reasonably prudent for the City to replace the existing line with a new asbestos cement pipeline.

9. There was discussion on the record relating to the proposed increase in size from a 12 inch transmission main to the proposed 16 inch transmission main, under consideration. Mr. Thomas, the City's consulting engineer, indicated that

the presently existing 12 inch transmission mains were adequate for meeting the existing peak daily demand for domestic usage but it was his opinion that it was inadequate for provision of fire flow during peak usage periods.

Continuing, Mr. Thomas stated that in recommending the City install a 16 inch line, he considered the maximum daily demand on the system, fire flow requirements, the fact that the City had a lack of stored water and the probability that customer growth would occur.

Absent testimony contradicting Mr. Thomas' assumptions regarding the sizing of the proposed transmission main, and mindful that under-sizing could cost the consumer more in the long run by possibly having to install a third transmission line at a later date or through loss of property because of inadequate fire flow, the Commission finds installation of a 16 inch main is reasonable.

10. The Commission finds the replacement of the 12 inch steel transmission line as proposed by the City to be reasonably prudent and therefore accepts the improvement as outlined. The Commission also accepts the City's estimated cost of \$600,000 for replacement as being a reasonable estimate.

Debt Service:

11. The City proposes to finance the majority, of the construction costs for replacement of the transmission line by issuance of revenue bonds.

12. The City proposes to issue \$475,000 in revenue bonds to be repaid over a period of 20 years at a maximum interest

rate of 11 percent, with the requirements that the City have a bond reserve fund in an amount equal to the average principal and interest payment on the bonds and provide a debt service coverage of 125 percent.

13. The City has elected to issue bonds in an amount less than the total required to finance replacement of the transmission line under consideration. The City proposes to finance replacement of the transmission line from both bond proceeds and unencumbered reserve funds of the water utility.

14. The City has a current outstanding water revenue bond with annual principal and interest payment of approximately \$94,000 and a coverage ratio requirement of 125 percent. The City does not anticipate retiring this bond issue with the issuance of the proposed bond issue. Therefore, the City will be incurring bond payments that are additional to those just described.

15. The City's Exhibit No. 4 at page 29 indicates that, as of the year ending June 30, 1982 the City had a total balance in its reserve funds of \$362,719. At page 25 of Exhibit No. 4 the City indicates that the present bond ordinance requires that the City maintain a fund balance in this "Operating Account" in the amount of \$17,906.54 and a fund balance in the "Revenue Bond Account" in the amount of \$94,000.

Therefore the City has \$111,906.54 in its reserve fund that is encumbered and cannot be used to reduce the amount of the proposed bond issue. Reducing the total reserve fund balance by the amount of the encumbered funds indicates that the City would have available \$250,812 in its reserve funds that would be available to reduce the amount of the proposed revenue

bond issue and meet additional reserve requirements.

16. Again at page 25, of Exhibit No. 4, the City indicates that the present bond ordinance requires the City to maintain a "reasonable" fund balance in the "Replacement and Depreciation Account". The City is requesting that the Commission allow the City to maintain a fund balance of \$50,000 in the "Replacement and Depreciation Account", which is an amount the City deems reasonable.

The Commission agrees that a utility should be allowed a reasonable amount of funding for a replacement account to insure that utility facilities are adequately maintained. In this instance, given the fact the bond ordinances will require the utility to provide a coverage ratio of 125 percent, the Commission is of the opinion that the ratepayer would be better served if the requested \$50,000 fund balance were used to decrease the amount of the proposed bond issue. The City can use the funds derived from the bond coverage requirement to make necessary replacements on the system and build a fund balance in the "Depreciation and Replacement Account".

17. With the issuance of a new revenue bond the City will incur an increased reserve requirement, of approximately \$60,000, for the "Revenue Bond Account" which is an amount equal to the estimated principal and interest payment on the new bond issue. The Commission finds this to be a standard requirement with the issuance of a revenue bond and therefore accepts the increased reserve requirement which will be funded from existing reserves.

18. The City at page 26, of Exhibit No. 4, indicates that it will be taking \$125,000 from its reserve funds to reduce the amount of the revenue bonds to be sold. The Commission finds based upon its disallowance of maintaining \$50,000 in the "Replacement and Depreciation Account" that the City should take \$175,000 from its reserve funds and reduce the amount of the proposed bonds to be sold, to \$425,000.

19. Based upon Findings of Fact Nos. 15, 17 and 38 the Commission finds the City will have available approximately \$15,000 of unencumbered reserve funds that may be used to meet unforeseen obligations of the utility that are incurred as a result of operations or additional requirements imposed to make the proposed revenue bond issue marketable.

20. The Commission finds that issuance of \$425,000 in revenue bonds with a term of 20 years and a maximum interest rate of 11 percent, with the requirement that the City have a bond reserve in an amount equal to the average principal and interest payment on the bonds and provide a debt service coverage of 125 percent is appropriate.

Operation and Maintenance Expense

21. The test year in this case is the fiscal year ending June 30, 1982 adjusted for inflation. The Commission finds the test year adjusted for inflation to be a reasonable period within which to measure the expenses for the purpose of determining a fair and reasonable level of rates and accepts the City's projection that operating expenses will be \$201,700.

Rate Design

22. The City proposes to generate the additional annual revenues authorized in this order by increasing rates on a uniform percentage basis to all customer classifications.

The City did not present a fully allocated cost of service study in its application, and absent such a study, the Commission cannot determine what the level of revenue contribution should be from each customer classification. The Commission finds that the City should be authorized to increase all rates and charges on a uniform percentage basis to attain the approved revenue.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding. Title 69, Chapters 3 and 7, MCA.
2. The Commission afforded all parties notice of and an opportunity to participate in this proceeding, Section 69-3-303, MCA.
3. The rates approved herein are reasonable and just. Section 69-3-201, MCA.

ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The City of Conrad shall file tariffs consistent with the

Findings of Fact for Docket No. 83.2.10 contained herein.

2. The City of Conrad is authorized to issue a revenue bond in the amount of \$425,000 with the requirements as outlined in Findings of Fact Nos. 17 and 20.

3. The City of Conrad is authorized to file increased rates recognizing increased costs of operation and the costs associated with the proposed revenue bond. These rates shall become effective upon Commission approval subsequent to the issuance of the revenue bond.

4. The rates approved herein shall not become effective until the tariffs and the necessary calculations for the bond issue costs have been submitted for approval by the Commission.

5. A full, true and correct copy of this order shall be sent forthwith by first class United States mail to the Applicant and all other appearances herein.

DONE IN OPEN SESSION at Helena, Montana, this 20th day of June, 1983, by a 3 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

Thomas J. Schneider, Chairman

John B. Driscoll, Commissioner

Danny Oberg, Commissioner

ATTEST:

Madeline L. Cottrill
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.